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TO RUEHC/SECSTATE WASHDC PRIORITY 0431
INFO RUEHAC/AMEMBASSY ASUNCION 6073
RUEHBO/AMEMBASSY BOGOTA 3392
RUEHBR/AMEMBASSY BRASILIA 7242
RUEHBU/AMEMBASSY BUENOS AIRES 4508
RUEHCV/AMEMBASSY CARACAS 1773
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RUEHMN/AMEMBASSY MONTEVIDEO 3989
RUEHQT/AMEMBASSY QUITO 4408
RUEHSG/AMEMBASSY SANTIAGO 8977
RHEHNSC/NSC WASHINGTON DC
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STATE FOR WHA/AND
TREASURY FOR SGOOCH
ENERGY FOR CDAY AND SLADISLAW

E.O. 12958: N/A
TAGS: [BL](#) [ECON](#) [EINV](#) [ENRG](#) [EPET](#) [KJUS](#)
SUBJECT: GOB DEFIES COURT DECISION ON HYDROCARBONS CONTRACTS

REF: LA PAZ 1157

[¶1](#). (SBU) Summary: On September 4, the Bolivian Hydrocarbons Chamber issued a press statement to publicize the Constitutional Court's May ruling that the 74 existing shared risk contracts between state oil company YPFB and private investors are legally valid. In response, the Hydrocarbons Minister continued to maintain that the contracts do not legally exist. Negotiations between the GOB and private hydrocarbons firms to sign new contracts began on September

[¶5](#). At the outset of negotiations, both sides are posturing to improve their negotiating positions, with the Hydrocarbons Minister defying the court's decision and claiming that because the contracts are invalid, the private firms must sign new contracts or leave. The executive branch's disregard for the court decision further erodes contract sanctity and rule of law in Bolivia. End summary.

[¶2](#). (SBU) The Bolivian Constitutional Tribunal ruled on May 10 that the 74 shared risk contracts signed by the Bolivian state oil company YPFB with private investors in the late 1990s are legally valid, but that future contracts must be approved by Congress. The press did not publicize the ruling at the time. The Bolivian Hydrocarbons Chamber, an association of private investors in the sector, issued a press statement to make known the court's decision on September 4 to strengthen its negotiating position prior to impending talks with the GOB. In response, the GOB maintained its argument that the contracts are legally non-existent because they were not approved by Congress, as required by the Bolivian Constitution, and lack the consent of the people.

[¶3](#). (SBU) Contract negotiations between the GOB and private oil firms began on September 5. At the outset of these negotiations, Hydrocarbons Minister Andres Soliz Rada reiterated that the previous contracts are nonexistent, so the companies must sign new contracts or leave (reftel).

[¶4](#). (SBU) Comment: The court decision put private energy firms in a better bargaining position vis a vis the GOB to

negotiate new contracts. However, the executive branch's apparent disregard for the Constitutional Court's ruling on hydrocarbons contract legality indicates the tenuousness of contract sanctity in Bolivia and bodes poorly for private investors. The Hydrocarbons Minister's flagrant disrespect for the court's decision indicates that investment in the hydrocarbons sector is likely to remain at the minimum level necessary for the firms to meet their contractual obligations, dampening Bolivia's long-term economic growth prospects. End comment.
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